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SIPDIS

AIDAC

MISSIONS FOR ECON OFFICERS, POL OFFICERS AND USAID DIRECTORS
SECSTATE WASHDC FOR USAID/ANE BUREAU/AA, JIM KUNDER AND MARK WARD; SAA/DIR, KAY FREEMAN, RICHARD STEELMAN, EBONY BOSTIC, MICHAEL METZLER, ERIC PICARD, NITIN MADHAV; SPO/DIR SUSAN FINE, REBECCA MAESTRI; TS/DIR TONY CHAN, JOHN WILSON, CINDY LOWRY; EGAT/I&E/DIR JUAN BELT, GORDON WEYNAND, ELLEN DRAGOTTO; E&E/EG/EI ROBERT ICHORD; NSC/SA DIR CLAUDIO LILIENFELD; STATE/SA DAS JOHN GASTRIGHT, PDAS DON CAMP, DIR JOHN SCHLOSSER, ANISH GOEL; DEPT. OF ENERGY/INTERNATIONAL ENERGY COOPERATION/EUROPEAN AND ASIAN AFFAIRS DIR ROBERT PRICE, TOM CUTLER; AND DEPT. OF COMMERCE/INTERNATIONAL TRADE/PAUL HUEPER; WORLD BANK GROUP/USED MUNEERA SALEM-MURDOCK.
BANGKOK PLEASE PASS TO RDMA DIR RICHARD WHELDEN

E.O. 12958: N/A

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SUBJECT: SOUTH ASIA REGIONAL ENERGY MEETING, DHAKA, BANGLADESH, DECEMBER 6-7, 2005

SUMMARY

1. THE EIGHTH MEETING OF THE USAID SOUTH ASIA REGIONAL INITIATIVE FOR ENERGY (SARI/ENERGY) WAS HELD IN DHAKA, BANGLADESH ON DECEMBER 6-7, 2005. THE FOCUS OF THE MEETING WAS REGIONAL ENERGY SECURITY THROUGH TRADE, INVESTMENT AND ACCESS. THE MEETING WAS ATTENDED BY 115 PERSONS FROM THE PRIVATE AND PUBLIC SECTORS OF THE EIGHT COUNTRIES OF SOUTH ASIA, USAID SOUTH ASIA MISSIONS, USAID/ANE, USAID/E&E AND USAID/EGAT. PRESENTATIONS WERE MADE ON ENERGY SECURITY AND REGIONAL TRADE OPTIONS BY PRIVATE AND PUBLIC SECTOR LEADERS FROM THROUGHOUT THE REGION. SEVERAL SARI/E PROGRAM ANNOUNCEMENTS WERE MADE INCLUDING REDIRECTION OF THE PROGRAM TO ENERGY SECURITY IN SOUTH ASIA, THE IMPENDING LAUNCH OF A REGIONAL ENERGY MARKETS INITIATIVE, LAUNCH OF THE WIND AND SOLAR MAPPING OF AFGHANISTAN AND PAKISTAN, AND THE RELEASE OF THE REGIONAL ENERGY SECURITY REPORT. A USG ONLY MEETING WAS HELD AT WHICH THERE WAS A STRONG ENDORSEMENT FOR THE OUTCOMES OF THIS MEETING AND THE REDIRECTION OF SARI/E, A REQUEST FOR A FORMAL SARI/E ADVISORY BOARD MEETING AS PART OF A MISSION DIRECTORS MEETING, A REQUEST TO REVISIT THE PROPOSED BUDGET REDUCTION FOR SARI/E IN FY06. END SUMMARY

OVERVIEW

2. THE EIGHTH USAID SARI/ENERGY SEMI-ANNUAL REVIEW MEETING WAS HELD IN DHAKA, BANGLADESH ON DECEMBER 6-7, 2005. IN TOTAL 115 PARTICIPANTS ATTENDED OF WHICH 82 WERE HOST COUNTRY STAKEHOLDERS FROM AFGHANISTAN, BANGLADESH, BHUTAN, INDIA, MALDIVES, NEPAL, PAKISTAN AND SRI LANKA. OTHER ATTENDEES INCLUDED REPRESENTATIVES FROM USAID WASHINGTON AND FIELD MISSIONS, IMPLEMENTING CONTRACTORS AND GRANTEES.

3. BEGUN IN 2000, THE USAID SARI/ENERGY PROGRAM FOCUSES ON REGIONAL APPROACHES TO MEET SOUTH ASIA'S ENERGY SECURITY NEEDS. THE OBJECTIVE OF THE PROGRAM IS TO PROMOTE ENERGY SECURITY IN SOUTH ASIA, WORKING TOWARD HARMONIZED MARKETS FOR REGIONAL ENERGY TRADE AND INVESTMENT, AND INCREASE ACCESS TO DIVERSIFIED CLEAN ENERGY SUPPLY.

4. THE PRIMARY THEME OF THIS MEETING WAS REGIONAL ENERGY SECURITY THROUGH CROSS BORDER TRADE AND INVESTMENT. LEADING POWER COMPANIES AND KEY PUBLIC SECTOR REPRESENTATIVES FROM INDIA, BANGLADESH, BHUTAN OTHER SOUTH ASIAN COUNTRIES AS WELL AS CENTRAL ASIA, SAARC, AND ASEAN GAVE PRESENTATIONS ON THE NEEDS AND ISSUES FOR REGIONAL ENERGY SECURITY AND CROSS-BORDER TRADE AND INVESTMENT. A HIGHLY ENGAGED AND OPEN DIALOGUE ON OPTIONS FOR TRADE TOOK PLACE BETWEEN ALL PARTICIPANTS WITH ACTIVE QUESTIONING FROM THE NEPAL AND PAKISTANI DELEGATES. USG PARTNERS OBSERVED A NEW AND STRONG LEVEL OF ENTHUSIASM FOR ENERGY MARKETS AND TRADE BY THE REGIONAL PARTICIPANTS. IN ADDITION, THE PARTICIPANTS ENDORSED THE SARI/E PROGRAM STRATEGIC OBJECTIVE.

5. THE PARTICIPANTS EXPRESSED STRONGLY THAT SOUTH ASIA PROVIDES SIGNIFICANT OPPORTUNITIES FOR ENERGY INVESTMENT, DEVELOPMENT AND TRADE. THE INDIGENOUS RESOURCES ARE SIGNIFICANT AT APPROXIMATELY 47,000 MILLION TONS OF OIL EQUIVALENT (MTOE), OF WHICH SOME 800 MTOE IS ANNUALLY RENEWABLE. YET ACCESS TO ENERGY IS AT LESS THAN 50% ON AVERAGE WITH AN ANNUAL TOTAL CONSUMPTION OF APPROXIMATELY 600 MTOE. CRITICALLY, THE ENERGY RESOURCES ARE INEQUITABLY

DISTRIBUTED AMONG THE COUNTRIES. THUS THE OPPORTUNITIES FOR COST-EFFECTIVE CROSS-BORDER TRADE AND INVESTMENT TO DEVELOP RESOURCES AND FOSTER ENERGY SECURITY IS IMMENSE, BUT AT PRESENT ONLY ABOUT 0.1 PERCENT OF TOTAL ENERGY IMPORTS ARE INTRA-REGIONAL. INDIA IS LEADING THE WAY WITH THE CREATION OF NATIONAL ENERGY MARKETS, AND WILL SERVE AS THE KEY REGIONAL MARKET. YET PROGRESS MUST BE MADE IN ORDER TO BRIDGE GAP BETWEEN MACRO-LEVEL INTENTIONS FOR ENERGY SECURITY, AND MICRO-LEVEL IMPLEMENTATION OF INTRA-REGIONAL TRADE AND INVESTMENT.

16. GOING FORWARD, USAID'S SARI/ENERGY PROGRAM WILL LAUNCH A REGIONAL ENERGY MARKETS INITIATIVE TO IDENTIFY AND ADDRESS KEY OBSTACLES TO FORMATION OF REGIONAL ENERGY MARKETS TO SUPPORT BILATERAL AND REGIONAL ENERGY TRADE AND INVESTMENT. SARI/ENERGY WILL LOOK TO SUPPORT SAARC ENERGY CENTER AND SOUTH ASIA ENERGY SECURITY INITIATIVES. THE PROGRAM WILL CONTINUE TO PROMOTE IMPROVED CLEAN ENERGY ACCESS, AND LEVERAGE SARI/ENERGY PROGRAM RESOURCES AND LESSONS LEARNED TO MEET US OBJECTIVES IN AFGHANISTAN AND PAKISTAN. PARTICULAR EMPHASIS WILL CONTINUE ON THE CENTRAL ASIA TO SOUTH ASIA ENERGY CONNECTION THROUGH AFGHANISTAN AND PAKISTAN.

USAID SARI/ENERGY INITIATIVES FOR ENERGY SECURITY

17. CONTRACTORS AND GRANTEEES OF SARI/E INCLUDE NEXANT, INC., U.S. ENERGY ASSOCIATION, U.S. CHAMBER OF COMMERCE, WINROCK INTERNATIONAL, AND U.S. NATIONAL RENEWABLE ENERGY LABORATORY. EACH OF THE SARI/E IMPLEMENTING PARTNERS PRESENTED THEIR ACCOMPLISHMENTS AND PROPOSED FOLLOW-ON ACTIVITIES.

18. RECENT SARI/E RESULTS AND ONGOING ACTIVITIES TOWARD ACCOMPLISH THE US OBJECTIVES OF REGIONAL ENERGY SECURITY INCLUDE A NUMBER OF ACTIVITIES, THE FOLLOWING OF WHICH ARE EXAMPLES:

19. REGIONAL ENERGY SECURITY - SARI/ENERGY RELEASED ITS REGIONAL ENERGY SECURITY REPORT, AUTHORED BY LEADING SOUTH ASIAN EXPERTS. THESE SARI/E CHAMPIONS PRESENTED THE FINDINGS OF THE REPORT AT THE FIRST MEETING OF SAARC ENERGY MINISTERS IN OCTOBER OF 2005. THE PRINCIPLES WERE ENDORSED BY THE SAARC ENERGY MINISTERS AND FORWARDED TO THE SAARC SUMMIT. THE SAARC DHAKA DECLARATION ALSO INCLUDED THE ESTABLISHMENT OF A SAARC REGIONAL ENERGY CENTER IN ISLAMABAD.

110. CROSS-BORDER TRADE AND INVESTMENT - SARI/ENERGY IS PROVIDING SUPPORT TO THE GOVERNMENT OF AFGHANISTAN, WORKING WITH USAID/KABUL, ON POWER IMPORT NEGOTIATIONS FROM NEIGHBORING CENTRAL ASIAN COUNTRIES. THE PROGRAM ALSO PROVIDED SUPPORT TO THE BANGLADESH-INDIA TATA GROUP CROSS-BORDER POWER SECTOR INVESTMENT CURRENTLY UNDER NEGOTIATION. SARI/E IS RAMPING UP SUPPORT ON THE JOINT VENTURE PROPOSAL BETWEEN NEPAL OIL CORPORATION AND THE INDIA OIL CORPORATION. RECENTLY, THE PROGRAM COMPLETED AN LNG IMPORT POLICY FRAMEWORK FOR PAKISTAN BASED ON REGIONAL EXPERIENCES. SARI/E ALSO WORKS TOWARD IMPROVED ENERGY REPORTING AND COVERAGE, WITH OVER 285 ARTICLES ON REGIONAL ENERGY COOPERATION AND DEVELOPMENT PUBLISHED IN LEADING NEWSPAPERS AND MAGAZINES.

111. CLEAN ENERGY ACCESS - SARI/ENERGY LAUNCHED THE WIND AND SOLAR RESOURCE MAPPING FOR AFGHANISTAN AND PAKISTAN. THIS HAD BEEN DONE PREVIOUSLY FOR SRI LANKA AND THE MALDIVES, WITH DEVELOPMENT OF A GEOSPATIAL TOOLKIT TO ANALYZE COST-EFFECTIVE SYSTEM OPTIONS FOR ANY SITE. THE DECISION SUPPORT TOOLS ARE NOW BEING ADAPTED FOR AFGHANISTAN AND PAKISTAN. THE SMALL GRANTS PROGRAM PROVIDED SUPPORT IN BANGLADESH THAT LED TO CONSTRUCTION OF 27 BIOGAS PLANTS. THE PROGRAM ALSO FACILITATED CREATION OF A RURAL ENERGY CENTER IN INDIA.

112. REGIONAL HARMONIZATION - THROUGH THE GRANTS PROGRAM A SET OF HARMONIZED STANDARDS FOR MICRO-HYDRO IN INDIA, NEPAL AND SRI LANKA HAS BEEN DEVELOPED. THE PARTNERSHIP PROGRAM RESULTED IN SHARING OF INDIA AND BANGLADESH TRANSMISSION GRID CODES WITH AFGHANISTAN AND PAKISTAN, ASSESSMENT OF RETAIL PRICING BETWEEN INDIA AND PAKISTAN, AND STRENGTHENING OF A POTENTIAL INDEPENDENT REGIONAL REGULATORY ASSOCIATION.

113. PRIVATE SECTOR VOICES FOR REGIONAL ENERGY TRADE AND INVESTMENT - THE SARI/E SPONSORED SOUTH ASIA REGIONAL ENERGY COALITION, COMPOSED OF REGIONAL BUSINESS LEADERS AND ASSOCIATION EXECUTIVES, BOARD OF DIRECTORS AGREED TO CONSTITUTE A MARKET POLICY FORUM IN EARLY 2006 TO IDENTIFY REGIONAL ENERGY MARKET DEVELOPMENT IMPEDIMENTS, AND TO DEVELOP AND INITIATE A POLICY ROAD MAP TO ADDRESS THESE IMPEDIMENTS. THE REGIONAL BOARD ALSO AGREED TO INCREASE ITS AMERICAN COMPANY MEMBERSHIP IN ORDER TO BETTER REPRESENT THE NEEDS OF FOREIGN INVESTORS IN THE SOUTH ASIA ENERGY SECTOR.

RECOMMENDATIONS OF REGIONAL WORKING GROUPS

14. DURING THE MEETING THREE WORKING GROUPS WERE ESTABLISHED TO IDENTIFY CRITICAL OPPORTUNITIES AND NEEDS IN EACH OF THE FOCAL AREAS OF ENERGY SECURITY. COMPRISED OF REGIONAL ENERGY SECTOR LEADERS AND SARI/ENERGY PARTNERS, THE GROUPS RECOMMENDED AND COMMITTED TO WORKING TOWARD THE FOLLOWING:

15. REGIONAL ENERGY SECURITY - SUPPORT THE NEW SAARC ENERGY CENTER IN PAKISTAN TO MAKE IT OPERATIONAL; DEVELOP A REGIONAL ENERGY MASTER PLAN WITH GUIDANCE FROM REGIONAL EXPERTS; PREPARE A CONCEPT PAPER FOCUSING ON A PROPOSED SOUTH ASIA INFRASTRUCTURE DEVELOPMENT FINANCIAL INSTITUTION. THERE WAS RECOGNITION THAT AT PRESENT SARI/E IS THE ONLY REGIONAL ENERGY PROGRAM IN SOUTH ASIA.

16. REGIONAL MARKETS FOR TRADE AND INVESTMENT - A WORKSHOP ON HOW SHORT- AND LONG-TERM ENERGY MARKETS CAN WORK IN SOUTH ASIA; WORK ADDRESSING THE ROLE OF INDIA IN INTEGRATING A REGIONAL GRID; EMPHASIZED NEED TO TAKE SMALL, REALISTIC INITIATIVES TO DEMONSTRATE CROSS-BORDER ENERGY TRADE; HOLD DISCUSSIONS HIGHLIGHTING CROSS-BORDER INVESTMENTS AND TRADES UNDERWAY; AND IDENTIFY STRATEGIC PUBLIC-PRIVATE PARTNERSHIP OPPORTUNITIES FOR ADDITIONAL CROSS-BORDER TRADES. THESE ARE AREAS IN WHICH THE SARI/ENERGY REGIONAL ENERGY MARKETS INITIATIVE WILL WORK.

17. INCREASED ACCESS TO CLEAN ENERGY SUPPLY - RECOGNITION OF NEED FOR TRAINING, CAPACITY BUILDING AND INFORMATION SHARING IN OFF-GRID AND GRID-BASED SOLUTIONS, INCLUDING LNG, CNG, WIND, SOLAR AND HYDROGEN; ENDORSED THE USE OF THE SARI/ENERGY RURAL ENERGY NETWORK AS A BASIS FOR PROMOTING CLEAN ENERGY ACCESS THROUGHOUT THE REGION.

USG MEETING

18. THE USG PARTNERS MEETING TOOK PLACE AT THE END OF THE FULL REGIONAL STAKEHOLDERS MEETING. THE MEETING WAS FOCUSED ON IMPLEMENTATION OF THE CHANGES SET FORTH IN THE SARI/E DECISION MEMO SIGNED BY ANE/AA IN SEPT 2005, WHICH REDIRECTED THE PROGRAM TOWARD REGIONAL ENERGY SECURITY AND ESTABLISHED A MISSION DIRECTOR LEVEL ADVISORY BOARD.

19. THE USG PARTICIPANTS, MANY OF WHO HAVE BEEN INVOLVED WITH SARI/E IN PAST YEARS, NOTED THE POSITIVE SHIFT THAT HAS OCCURRED IN THE PROGRAM. THEY NOTED THAT THE REGIONAL PARTICIPANTS DEMONSTRATED A GREAT DEGREE OF POSITIVE MOMENTUM AND DIRECT DISCUSSIONS ON HOW TO IMPLEMENT CROSS-BORDER TRADES. INDIA WAS REPRESENTED IN STRENGTH AND LED THE DISCUSSIONS ON TRADE AND INVESTMENT OPPORTUNITIES WITH THEIR NEIGHBORS IN THE REGION. THERE WAS A POSITIVE RECIPROCAL RESPONSE AMONG THE SOUTH ASIAN COUNTRIES, PARTICULARLY PAKISTAN AND NEPAL. THE PARTICIPANTS FROM THROUGHOUT THE REGION DEMONSTRATED A HIGH LEVEL OF PERSONAL COMMITMENT AND SHARED A SENSE OF MOMENTUM TOWARD CROSS-BORDER TRADE AND COOPERATION IN THE REGION. THE COMMENT WAS RAISED THAT THIS WAS A VENUE THAT HAD NOT EXISTED IN THE PAST.

20. THE USG PARTICIPANTS EXPRESSED GREAT CONCERN THAT THE REDUCTION IN THE FY06 BUDGET LEVEL FOR SARI/E OF 2.252 MILLION DOLLARS WILL SIGNIFICANTLY IMPACT THE ABILITY OF THE PROGRAM TO IMPLEMENT THE OBJECTIVES APPROVED IN THE DECISION MEMO. A LEVEL SHOULD BE ESTABLISHED ON A CONTINUAL ANNUAL BASIS BY ANE THAT MEETS THE NEEDS OF THE PROGRAM TO IMPLEMENT THE APPROVED OBJECTIVES. THIS LEVEL, IN PAST, HAS BEEN BETWEEN 5 TO 7 MILLION DOLLARS A YEAR.

21. OF THE NINE USAID ADVISORY BOARD MEMBERS, TWO MISSION DIRECTORS AND FOUR TECHNICAL DESIGNEES WERE PRESENT. TWO ADDITIONAL USAID TECHNICAL OFFICES, EGAT AND E&E, WERE ALSO PRESENT. THOUGH THERE WAS A MAJORITY BOARD REPRESENTATION, IT WAS STRONGLY FELT THAT THE FIRST ADVISORY MEETING SHOULD BE HELD AT THE PRINCIPAL LEVEL. THE CONSENSUS WAS THAT A MEETING OF USAID MISSION DIRECTORS AND ANE OFFICE DIRECTORS WOULD BENEFIT THE REGION ON A NUMBER OF AREAS BEYOND JUST ENERGY. AS SUCH THEY SUGGEST THE CONVENING OF SUCH A MEETING IN MAY/JUNE OF 2006 IN THE REGION. AT THAT MEETING THE SARI/E ADVISORY BOARD WOULD FORMALLY MEET FOR THE FIRST TIME AND WOULD BE ABLE TO EFFECTIVELY FUNCTION AS INTENDED IN THE DECISION MEMO. IN THE MEANTIME A VIRTUAL SARI/E BOARD APPROACH WILL BE NECESSARY. THIS VIRTUAL APPROACH WILL BE USED TO FINALIZE THE RESULTS FRAMEWORK BY THE TIME OF THE FIRST FULL BOARD MEETING.

22. THIS CABLE HAS BEEN CLEARED BY USAID FROM ALL PARTICIPATING POSTS.

CHAMMAS